MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, and welcome to the Caleres Third Quarter Earnings Conference Call. My name is Melissa, and I will be your conference coordinator. At this time, all participants are in a listen-only mode. [Operator Instructions] A question-and-answer session will follow the formal presentation. As a reminder, this conference is being recorded.

At this time, I'd like to turn the call over to Logan Bonacorsi, Vice President of Investor Relations. Please go ahead, Miss.

Logan Bonacorsi, Vice President-Investor Relations, Caleres, Inc.

Good morning. I'd like to thank you for joining our third quarter 2022 earnings call and webcast. A press release with detailed financial tables, as well as our quarterly slide presentation are available at caleres.com. Please be aware today's discussion contains forward-looking statements, which are subject to a number of risks and uncertainties. Actual results may differ materially due to various risk factors including but not limited to the factors disclosed in the company's Form 10-K and other filings with the US Securities and Exchange Commission. Please refer to today's press release and our SEC filings for more information on risk factors and other factors, which could impact forward-looking statements. Copies of these reports are available online. In discussing the results of our operation, we will be providing and referring to certain non-GAAP financial measures. You can find additional information regarding this non-GAAP financial measures, as well as other views in today's earnings release in our presentation on the Investors section of our website. The company undertakes no obligation to update any information discussed on this call at any time.

Joining me on the call today is Diane Sullivan, Chairman and CEO; Jay Schmidt, President; and Jack Calandra, Senior Vice President and CFO. We will begin this morning's call with our prepared remarks, and thereafter, we'll be happy to take your questions.

I would now like to turn the call over to Diane. Diane?

Diane M. Sullivan, Chairman & Chief Executive Officer, Caleres, Inc.

Thank you, Logan and good morning, everyone.

Diane M. Sullivan, Chairman & Chief Executive Officer, Caleres, Inc.

Thank you, Logan, and good morning, everyone. It's an exciting time at Caleres with our team's energy running high as our momentum continues. Today, I'm very happy to report that Caleres continued its strong performance in the third quarter of 2022.

We built on our excellent first half results, which were driven by another period of outstanding operational and financial execution. These results are further proof of the strength of our brands, of our compelling product and product creation power, of our disciplined inventory management, and, of course, the agility and resiliency of our operating model that is showing strength.

For the third quarter, and even with the – as the consumer navigates this challenging macroeconomic environment, we achieved record quarterly sales of $798 million, nearly 2% higher than the third quarter of 2021, with improvement once again driven by a 7.6% year-over-year increase from the Brand Portfolio segment.

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And we delivered another strong return on sales, reaching more than 7% as the Brand Portfolio recorded robust third quarter earnings and Famous held its operating margin in the double digits, achieving 12.3%. And all-in this generated operating earnings of $57 million and earnings per share of a $1.15. I will note that at $1.15, we've ended the first nine months of 2022 with $3.86 of earnings per share or a $1.66 above our pre-pandemic record.

In addition, during the period, we also grew total Caleres market share. We continue to manage our inventory well and ultimately ended the period nearly 16% lower than the second quarter of 2022. And we returned $24 million to our shareholders through share repurchases and dividends, all in excellent results with a team that is determined to continue to drive this momentum.

Now, as you know, this will be the last time that I speak with all of you as CEO as I will transition to executive chairman in mid-January. I cannot express how much of an honor serving as CEO of Caleres has been for me. I'm proud of what we've accomplished and proud of the diversified portfolio, the consumer and product-driven organization and the inclusive culture that we've built during that time.

You can absolutely count on the fact that the strategic focus areas of delighting consumers, building a product that fits and is relevant, creating inspiring experienced and engaged teams are well embedded into the fabric of who we are. That will never change. I want to thank my leadership team for their collaboration, creativity and drive for results and of course, their commitment to all of our colleagues, consumers and our partners. And I want to thank all of you in the investment community for your interest and support of me and our organization.

To say that I'm excited about the future of Caleres would be an understatement. I see tremendous potential for the earnings power of the company. In fact, with the record earnings performance in 2021 and our expectations for another record this year, I am confident our pre-pandemic earnings level is firmly in the rearview mirror.

Furthermore, I believe in the resiliency in the portfolio and I'm completely confident in our ability to create long-term value for our many stakeholders. I believe our expertise and capabilities and brand building and product creation marketing, digital commerce and our supply chain management provide a unique foundation from which to continue to build. And I'm also confident that this will be a successful executive transition. As you well know, Jay and I've been working side-by-side for many years, and I can say that without reservation, he has an unending commitment to excellence. He knows the footwear category, our business and our consumers very well, and he is ideally suited to lead the organization through its next chapter.

And his leadership roles, numerous ones at Caleres and his distinctive merchant mind have prepared him well to steer the company into the future. And although many of you may have met him by now, I would like to take a moment to introduce Jack as well, who joined us in September as CFO and is joining his first Caleres' quarterly earnings call today. As you get to know Jack in this role, I'm confident that you'll be impressed by his strong financial background and his consumer goods expertise. As you can imagine, this next-next step in my personal career is as exciting as it is bittersweet.

That said, I'm thrilled to move to my new role as executive chairman, and I look forward to supporting Jay, Jack, and the rest of the Caleres leadership team as they build on what we've accomplished together. And I also look forward to focusing on continuing to enhance the Caleres culture, drive strategic initiatives to unlock growth, and assist in ensuring we have a value-enhancing pipeline of growth opportunities ready for when the timing is right. Now, I'll turn up the call over to Jay to share more details about our third quarter results. Jay?

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John W. Schmidt, President, Caleres, Inc.

Thank you, Diane, for your kind words, your confidence and your support.
We've worked together for a long time and I feel so fortunate for that opportunity. In the past 12 years as our CEO, you have led the transformation of our financial performance, our portfolio brands, our digital business, and our employee culture. I want to thank you for your leadership and mentorship, and I look forward to your ongoing counsel as executive chairman.

Now let's talk about our third quarter performance. Caleres did deliver another period of strong results. We leaned into our diversified brand portfolio and our advantaged inventory position to meet the robust demand in key trending segments of the footwear market. At the same time, we continue to prioritize investment areas, namely consumer marketing and experience that is value driving and essential for future growth.

I'll begin with our Famous Footwear segment. Famous continued to perform at a high level during the third quarter, up against the blockbuster period last year, Famous beat our expectations, delivering a modest year-over-year sales decline. However, by limiting promotional activity, the business generated margins higher than pre-pandemic levels, which were also in line with our plan. Jack will walk through the specific key financial metrics of each segment in more detail in just a few minutes. But I would like to call out a few highlights that drove our quarterly performance at Famous, namely Kids, brand curation, fashion acceleration, and consumer experience.

First, our back-to-school kids business was a highlight, outpacing last year's robust performance. In fact, our Kids business increased 3% in the 10-week back-to-school period versus 2021. The results for the first – the full quarter were even better, up 6% as we positioned the right inventory behind the right brands and styles. Clearly the kids category is a strategic differentiator and a long-term growth driver for Famous. And this recent performance further solidifies our position as a destination for back-to-school footwear.

Second, the curated assortment of national brands and styles continued to resonate with the Famous consumer target, the Millennial family. Famous' top 25 brands, represented 89% of sales during the period, and we saw acceleration of those key brands as inventory strengthened later in the quarter. Famous also experienced strength in its non-athletic business, aligning with the demand we saw with the rest of our Caleres brands.

Third, we are seeing meaningful progress in our effort to meet the consumer and to build our competency on the fashion side of the business. We know that when she buys for her family and for herself, she is spending more, connecting more, and returning more often. This was accelerated by growth in top key market brands, as well as by the vertical integration with our Caleres brands. Our own Caleres brands perform very well at Famous during the period, with sales increasing 19% versus last year.

LifeStride, in particular, was a standout breaking into the top 10 of all selling brands at Famous for the quarter. Our Dr. Scholl's Footwear experienced similar results, posting a double digit increase across both men's and women's segments. I will also call out Naturalizer, which had impressive year-over-year sales performance, increasing our fashion component for the Famous consumer while offering a strong comfort proposition.

All of these improvements demonstrate our ability to take our extensive understanding of our consumer and deliver the right brands and styles in the right quantities and locations to drive highly profitable incremental sales. This is all in addition to the core athletic and sport business that Famous is known for.

Lastly, Caleres have continued to invest in the consumer experience at Famous, amplifying a tangible brand image across omnichannel. In recent quarters, we have replatformed

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famousfootwear.com, updated high potential and high performing stores, initiated a new store concept that brings the best footwear brands and trends to life and showcases all of the enhanced visual assets and communication focused on the family that we display on our website.

So far, the results seem very promising. Our digital performance improved 2% in the quarter, and our early read from our new store concept show a significant uplift in financial performance. We are encouraged by these developments and look forward to providing more updates at yearend.
Overall, Famous Overall, Famous has delivered a strong performance during the first nine months, holding its powerful double-digit operating margin while underscoring the strength of the Famous brand. And while we recognize that there is uncertainty for consumers given the threat of mounting inflationary pressures, Famous is well positioned to compete and win, even in a challenging market due to its leadership position with the family, its advantaged assortment of national brands, retail locations in key markets across the country with exceptional service by our team, and enhance consumer experience in stores and online, supported by customer insights.

Next, I'd like to move to the brand portfolio. Brand portfolio turned in an outstanding performance in the third quarter of 2022, achieving another period of year-over-year improvements across all key financial metrics and putting us well on our way to delivering a significant step up in the segment's overall annual earnings contribution in 2022. This performance was driven by robust demand and strong consumer reaction to our fashion products, with most of our lead brands delivering positive sales trends during the quarter. These results reflect the progress the team has made against the effect of key initiatives, including elevating our product, design, fit, and relevance, sharpening our brand positions and messaging, and aligning inventory with demand with our edit to win strategy playing nicely for more of the right style, SKUs, quantities, and sizes to meet the consumers' needs.

And while you've heard from our peers that retailers are being more conservative with inventory, our capabilities have allowed us to minimize the impact to Caleres. For example, our dropship partnerships continue to support meaningful sales outcomes. We expect this trend to continue through 2023, and it serves as another example of how we can continue to connect with consumers, maximize our inventory investment, and provide our retail partners flexibility in periods of uncertainty.

Also during the quarter, the brand portfolio achieved an outstanding performance in our brand's own website sales, highlighting the power of our brands and our improved digital capabilities. This included a nearly 22% growth from our owned e-commerce sites with solid year-over-year increases from nearly every brand with the largest gains coming from Sam Edelman and Naturalizer.

In total, the [audio gap] 00:17:00 portfolio site saw an increase of 24% in new customers versus 2021. Clearly, these results demonstrate how we can leverage our powerful brands, our customer analytics, and our growing expertise in this area to unlock more value from the total Caleres customer files going forward.

I'd now like to highlight some brand-level details focusing primarily on the portfolio's lead brands beginning with Naturalizer, which has delivered an outsized performance all year long, gaining market share and driving sales, earnings, and average unit retail improvements.
During the third quarter, Naturalizer sales increased nearly 60% over 2021, with gains in dress, casual, and boots, especially tall shaft boots. Average unit retails increased by 20% over last year, driven by newness in style and innovation. The brand's focus on inclusive sizing has resonated with consumers not only through offering extended sizes and widths, but also by offering wide shaft proportions in its tall boot assortments.

The brand also launched an elevated look with improved functionality on Naturalizer.com. The new site emphasizes the strength of elegance and utility along with comfort and fit, and it connects with consumers through authentic product concepts and stories. The results, sales of Naturalizer.com

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grew more than 50% in the third quarter and new customers to the site grew by 19%, with over half of this increase in younger consumer demographics.

Naturalizer performance serves as another example of the power of our brands, combined with the power of our capabilities and our talented team members. The ongoing evolution here has placed the brand in the top 12 of all fashion brands and sales performance for the third quarter, according to NPD.

Next, our Sam Edelman brand delivered continued strong results, with sales increasing 26% year-over-year. While the brand's wholesale performance showed strength across all footwear categories via trend right styling at samedelman.com business more than doubled in the quarter.

Key to driving this performance was a heightened focus on the aspirational luxury consumer, including fall direct mail and a global marketing campaign, featuring supermodel Naomi Campbell. These initiatives translated to a 75% increase in web traffic, a 55% increase in new consumers, and a new record in digital sales for the month of September. Clearly, there is a lot of momentum with Sam.

Next to Allen Edmonds, where newness and its well-known brand icons, as well as sneaker and boot offerings showed continued improvement versus last year with higher average unit retail and margins. Product collaborations and limited drop events continue to delight consumers and drive full price selling. Our court event trunk show with our most successful ever and our collaboration with the brand, Barbour on Exclusive Styles became immediate bestsellers. Both these events highlight the brand's commitment to authenticity and craft, which is at the heart of the Allen Edmonds brand.

Also new this quarter is a relaunch of our Collector's Loyalty Program, allowing us to enhance our relationship with our best customers. There are many other brand examples I could give, but to summarize, the consumer continues to respond to newness and fashion aligned with the brand's clear DNA. Our brand portfolio is more diversified and Our brand portfolio is more diversified and relevant and focused than ever, and our teams and processes are flexible and able to pivot to meet changing consumer demand.

Looking ahead across the entire portfolio, the brand teams will lean into their strong product creation ability, build on consumer insights, and build on our owned e-commerce business, manage inventories using speed to market as a catalyst and further our added to win initiative all to unlock opportunities for future growth.

Overall, 2022 is progressing in line with our expectations. In light of the more challenging macroeconomic environment, the entire team at Caleres will be focused on controlling what we can, managing expenses and reducing our overall debt levels. However, our strong execution through the first nine months allows us to say with confidence that despite the uncertainty in consumer spending and the broader economy, we are confident in our ability to deliver record earnings per share this year.

In closing, I am energized to be taking on the CEO role at this moment in Caleres' evolution. Our team has established a great foundation from which to build, and I am optimistic about our prospects for long-term profitability. Further, I am highly confident in our ability to generate strong levels of cash and drive additional shareholder value.

With that, I will now hand it over to Jack for a more detailed view of our financials. Jack?

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Jack P. Calandra, Chief Financial Officer & Senior Vice President, Caleres, Inc.

Thanks, Jay and good morning, everyone. I am thrilled to be speaking with you on my first Caleres earnings call. Today, I'll provide additional details on our strong third quarter results, discuss our capital allocation progress and plans, and share our improved outlook for full year 2022 financial performance. As a reminder, my comments will be on an adjusted basis and we'll focus on the comparable period in 2021, with some supplemental comparisons to the third quarter of 2019 where helpful. Please see today's press release for a reconciliation of adjusted results.

Sales were $798 million, an increase of 1.8% versus last year. As Diane mentioned, this performance was driven by a 7.6% increase in brand portfolio sales. Famous Footwear sales declined 2.6%, slightly better than expectation, and comparable sales were down 0.8%. Gross margin was 42.6%, effectively in line with last year, reflecting a decrease in Famous gross margin and increase in brand portfolio gross margin, and a higher contribution of brand portfolio sales to total company. Famous gross margin was 44.7%, down 290 basis points versus last year. The decline reflects more normalized pricing and increased promotional activity versus last year, when inventories were exceptionally low due to supply chain constraints.

Notably, gross margin was up 370 basis points versus the third quarter of 2019. Brand portfolio gross margin was 37.9%, a 490 basis point increase versus last year due to higher wholesale prices, which were up 16% on average, growth in higher margin sales from the direct-to-consumer channel and a favorable brand mix.

Gross margin and brand portfolio increased 70 basis points versus the third quarter of 2019. SG&A expense was $283 million or 35.5% of sales, As communicated on our second quarter call, this includes approximately $9 million of higher stock and incentive compensation expense, most of which is a timing shift from Q2.

Operating earnings were $57 million and operating margin was 7.1%. Operating margin was 12.3% at Famous and 6.9% at brand portfolio. Net interest expense was $4 million, about $900,000 higher than last year given higher borrowings on our revolving credit facility and the higher borrowing rate given the increase in LIBOR. Diluted earnings per share were $1.15 at the high end of our previous guidance. EBITDA for the trailing 12 months was $299 million or 10.1% of sales.

Turning now to the balance sheet and cash flow. We ended the third quarter with approximately $365 million in borrowings on our revolving credit facility and no long-term debt. Inventory at quarter end was $649 million, up 19.5% versus last year and up slightly compared to the third quarter of 2019.

On hand and available to sell inventory was up and goods in transit were down materially. Notably, inventory was down 15.8% sequentially. By segment, inventory at Famous was up 17.5% versus last year and down 11.5% versus 2019. At Brand Portfolio, inventory was up 22.6% versus last year and up 14.1% versus 2019. We recognize the importance of maintaining a healthy relationship of inventory to sales and expect continued improvement in inventory levels in Q4.

Regarding cash flow from operations, we generated $19 million during the quarter and deployed cash for strategic investments in the business, paying our dividend, and buying back shares. In the third quarter, we repurchased 838,000 shares at an average price of $25.72 per share for a total cost of $21.6 million. Including the dividend, we returned $24 million in cash to shareholders in the quarter.

Looking ahead, we expect to generate a significant amount of cash flow from operations in the fourth quarter. While we have 6.4 million shares remaining under our current board authorization and will continue to consider share repurchases based on market conditions, we believe at this time the best use of free cash flow after maintaining the dividend is to reduce our revolver borrowings

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and increase overall liquidity. As such, our guidance does not assume additional share repurchases this year.
Given our strong performance year-to-date and our current expectation for Q4, we are tightening our fiscal year 2022 earnings outlook to the upper end of our previous guidance range. As such, we now expect full year 2022 diluted earnings per share to be between $4.30 and $4.40. We are reaffirming our previous guidance for full year 2022 sales to be up between 4% and 6% versus 2021. And we are providing guidance on several additional metrics as follows. We are planning continued improvement in inventory levels and expect Q4 ending inventory to be up mid-single digit percent versus last year.

Given the recent increases in interest rates and the likelihood of an additional increase from the Fed in December, we expect our interest expense to be about $14 million for the year. And finally, we expect full year capital expenditures of about $55 million.

With that, I'll turn the call back to Diane for some closing remarks.

Diane M. Sullivan, Chairman & Chief Executive Officer, Caleres, Inc.

Thanks, Jack. And as you can see, we are extremely encouraged by our results year-to-date. And even with the uncertainty in the macroeconomic environment, we're very confident we'll close the year in a record setting manner. Going forward, our portfolio is strong, our teams are aligned and we still have plenty of runway for growth. So we're poised to generate significant value for all of our stakeholders.

With that, I'd like to turn the call over to the operator for some questions and answers. Operator?

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QUESTION AND ANSWER SECTION

Operator: Thank you.
[Operator Instructions] Our first question comes from the line of Steve Marotta with C.L. King and Associates. Please proceed with your question.

<Q – Steve Marotta – C.L. King & Associates, Inc.>: Good morning, Diane, Jay, Jack, and Logan. Diane, congratulations again on a just incredible career and an incredible run at Caleres. You're going to be very missed, I'm sure, on the call.

<A>: Thank you, Steve. I really appreciate that.

<Q – Steve Marotta – C.L. King & Associates, Inc.>: Great. Thanks. And Jay, of course, welcome again.

<A>: Thank you.

<Q – Steve Marotta – C.L. King & Associates, Inc.>: Can you talk a little bit about November to-date and if it's differed at all from the rate of sales in the third quarter at both Branded Portfolio and Famous?

<A>: Yeah, sure. I – let me start in and I'll kick the ball around a little bit this morning with both Jay and Jack. But on this one, as it relates to our Brand Portfolio business, quite honestly, our trends going into the fourth quarter have continued to be as good, if not better than what we saw in the third quarter. So we're feeling very good about how that is looking and for the fourth quarter.

As it relates to the Famous side of the business, as you've heard by from many folks, that certainly the customer is a bit under stress. There was some weather-related issues out there and sentiment has been a little off. So we were – tragically super thoughtful in our guidance, given both the strength at BP and a little softer on the Famous side, how did we put those pieces together to really guide very smartly for the fourth quarter.

So, Jack, maybe you could just talk a little bit about what the assumptions are around that. I think that's probably the most helpful way to share our thinking.
<A – Jack Calandra – Caleres, Inc.>: Sure. Thanks, Diane. And hi, Steve. So really at the low end of our guidance of the $4.30, we would assume that Famous comparable sales could be down as much as low-double digits. And then at the high end, Famous would be down sort of mid-single digits on comparable sales. And what I would say is kind of where we are quarter-to-date is kind of in between those two numbers. So feel really comfortable with the range we've given both to protect on the downside and then to give us some upside opportunity as well.

<A – Diane Sullivan – Caleres, Inc.>: Yeah. And then reiterating that Brand Portfolio feel very good about the current trends on that and they seem to be continuing.

<A – Jack Calandra – Caleres, Inc.>: That's right. Yes.

<A – Diane Sullivan – Caleres, Inc.>: Yeah.

<Q>: Sure. That's very, very helpful.

<A – Diane Sullivan – Caleres, Inc.>: That's helpful, Steve?

<Q>: Absolutely, 100%. And I think I asked this on the last call as well. And I know you don't specifically provide order book information, but as we look out through the first half of 2023, can you talk a little bit about what you're seeing, maybe how much drop ship has increased as a

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percent of sales during the quarter so that maybe the initial order book is not completely reflective of what is ultimately sold during the quarter and maybe if I add a little bit of it might be a tale of two halves next year.

<A – Diane Sullivan – Caleres, Inc.>: Yeah. Great question. And I'll let Jay talk a little bit about the order book and drop ship because that's really – actually, the drop ship business has been we were early adopters I think in that and it's – that's continued to be a real advantage for us, particularly in the, I would say, the last six months, Jay.

<A – Jay Schmidt – Caleres, Inc.>: Yeah, the – it really provides a lot of flexibility and really a way to maximize our inventory and going directly to the consumers. And I would say two things. Number one, the drop ship business has continued to grow high-double digits during the quarter, and we're seeing that be around that 20% of our business. So again, it's supplemental to the total but still very, very important significance to the brand portfolio of the business. The other thing is the order book is actually is really in line with where we think going into the quarters, you know, as we go through with so much of it being dynamic now with our dropship and our replenishment business that we're really seeing more of that come through that way. But – so we feel pretty confident in our order book as we go into spring right now.

<Q>: Yeah, Jay when you say in line, I just want to understand that, is that roughly flat with last year?

<A>: Where it is is we actually, it's in the same percentage of where we've gone into each quarter. So it allows us to really capture the rest of it into there. So, yes, it's been in line with, I would say, historical, new normal quarters. I think 2022 was a funny year and it was a little lopsided as we went quarter to quarter. But this really reflects where we've been in the third and fourth quarter. So we feel quite confident.

<A>: Yeah and it has evolved. Right? We used to look at order book only.

<A>: Yes.

<A>: We've got to look at the dropship capabilities. We look at our own direct-to-consumer businesses. So it's a mix. And all of that is very much in line now with what our outlook looks like. So feeling pretty positive about that. And I think, Steve, the other thing on that point is we really did have the inventory on the brand portfolio this fall, which really helped accelerate our business. And when you have a good business going into the next season, that is very helpful as well. So you know how that all works.

<Q>: Sure, sure, sure. Excellent. One more question, as it pertains to cost and pricing, can you talk a little bit about what is going on in the first half of 2023? And is there the potential actually for sourcing deflation in the second half of 2023 compared to the second half of 2022?

<A>: Well, I think I'll start and Jay can add some color to it. I don't think that we're thrilled with the price elasticity that our brand showed really all through 2022. That price increase of 16% that really stuck on the Brand Portfolio was I think fantastic. I think our priority, for sure, there may be some deflation in the input costs, but there's also really going to be additional ocean freight savings and other opportunities.

So, and Steve, I think both Jay and Jack would certainly support this point that our focus is absolutely on continuing to hold and maintain these margins...

<Q – Steve Marotta – C.L. King & Associates, Inc.>: Yeah.

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<A>: ...going forward. So while we're going to do everything, there will be some – there will be tailwinds, there will be some headwinds, and all-in, our goal is to continue to deliver higher gross margin levels.

<A>: Yeah. I would say absolutely. And then the other thing is, we'll continue to attack that with speed all the way through the reorder system, and I think that will help us pick up additional scale and savings as we go forward as the supply chain really returns back to what we've seen at more normal lead time levels.

<Q – Steve Marotta – C.L. King & Associates, Inc.>: That's terrific. Thank you very much.

<A>: Thanks, Steve. Appreciate it.

Thank you. Our next question comes from the line of Abbie Zvejnieks with Piper Sandler. Please proceed with your question.

<Q – Abbie Zvejnieks>: Good morning. Thanks so much for taking my question. I just want to ask about the inventory moving through, you told me being up around mid-single digits at the end of the year. It's really impressive. So can you just talk about your strategy on how you're buying into that inventory both at Famous and the Brand Portfolio? And then I guess, how are you thinking about promotions at the Brand Portfolio? And are you concentrating those more in your DTC channels versus letting them flow into some of the wholesale partners? And then I guess on just balancing newness and this product creation that you're talking about to drive demand versus moving through that excess inventory. Thank you.

<A – Diane Sullivan – Caleres, Inc.>: Yeah. So I'll start, Abbie. You had a lot of questions.

<A>: I know.

<A – Diane Sullivan – Caleres, Inc.>: [indiscernible] 00:39:42 so if I don't unpack them in the right way, let us know and we'll certainly add some more color to it. I think our inventory position, we feel – I just talked about the Famous Footwear side. I think we're in terrific position at Famous. We – as we got some of – new goods in during the course of the quarter, we actually did see some acceleration in those pockets of in-demand kind of styles that that Famous had. We are – got plenty of room and have within our guidance to make sure we maintain our competitive position in the marketplace in the fourth quarter of this year.

So we feel like, again, through all of our guidance and what we've planned that we don't really see any issue. And we want to make sure that we go into the first quarter of next year in a really clean position. And in fact, I think, Jay, we saw that almost 60% of our inventory is really new in this quarter.

<A – Jay Schmidt – Caleres, Inc.>: Yeah.

<A – Diane Sullivan – Caleres, Inc.>: So we're really hoping that that newness is going to really motivate the consumer to buy. So we believe we have it pretty well-covered there.

On the Brand Portfolio side, again, we all know that in the second quarter, our inventories increased as all of the pandemic issues collided, and we – some things came early.

<A – Jay Schmidt – Caleres, Inc.>: Came a lot early.

<A – Diane Sullivan – Caleres, Inc.>: But as we've gone through the back half of this year, we have really not been focused on promotional – promotion or liquidation at all. It's been fundamentally full It's been fundamentally full price selling because we frankly did not have the

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inventory. Last year, we were down, and I think it retail somewhere on average about 30% on our inventory levels and in brand portfolio last year. So the fact that we have some inventories that's terrific and we're planning on ending the year as Jack mentioned in a good spot. So

<A>: Yeah.

<A>: While it was lumpy through the year here and there but of course, where wasn't it, as we end this year going into next year, believe we have tons of opportunity to chase and to manage the business and whatever this new normal kind of looks like.

<A>: Yeah. And I just add is that the, in brand portfolio, we really saw it come in early. And so this was really we – we really ended third quarter exactly where we thought we would with inventory and we see fourth quarter coming into that same place, and also that we don't have to frontload anymore because of the supply chain normalizing. So, we're going to see it return to a much more manageable type of business with better turn throughout the – as we go forward. So anyway, but the fall is really – it's exactly what we said, it came in early and it's really being driven down and fortunately it's in the right sales that the consumer is demanding.

<Q>: That's super helpful thanks so much.

<A>: Thanks, Abbie.

Operator: Thank you. Our next question comes from the line of Laura Champine with Loop Capital Markets. Please proceed with your question.

<Q – Laura Champine – Loop Capital Markets LLC>: Thanks for taking my question and congratulations, Diane, and welcome again, Jay and Jack. I really just have one question and it's about when Famous Footwear can be expected to turn that comp positive again. And I guess embedded in that question is what's going on from an AUR perspective whether for better or for worse right now in the – in this current period.

<A>: Well, I'll take – I'll start with the end. Right now, for the third quarter, our AURs were actually slightly up in Famou Footwear for the quarter. And so that actually reflects some – I would say, good, solid demand and health to it. We really saw athletic come down in the third quarter and we saw non-athletic increase at the same time.

So as we look to move that more to an even balance, I think we're goaling forward for that for 2023. I think we're still going through in fourth quarter and really trying – I think really, I think our forecast really reflects any risk that's out there, but I think we'll see that moving into 2023.

<A>: So, Laura, I'd add maybe...

<A>: Yeah.

<A>: ...a couple things, Jay, as well on this topic. If you look at the quarter, right, we were down just 1% on a comparable store basis, which really wasn't – not bad in this overall environment, particularly, as you think about the Athletic business, which is 60% of our business in the quarter, as a category in the total market, was down in the high single digits.

So we think as the consumer continues to move in a better balance now, they weren't [ph] historically 00:44:51 buying Athletic in a little more robust way. And as Jay and the team continued to build out, that's not the other non-athletic and fashion side. So we're balancing sort of the categories within the store. And Famous, we think that actually is going to truly help and lift that comp from – down one to what we expect in 2023 to be in a more positive place. So a lot of it is this category, category driven. And as we drive the fashion side of it a little bit stronger and same, that

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will really help. I think that's a big strategic shift for everybody and kids that's going to allow us to change our momentum.

<Q>: And get more inventory?

<A>: Yes, and get more inventory in this category shift. So...

<Q>: Got it.

<A>: ...does that help?

<Q>: It does. Thank you, guys.

<A>: All right. Thank you, Laura.

<A>: Thank you.

Operator: Thank you. Our next question comes from line of Mitch Kummetz with Seaport Research Partners. Please proceed with your question.

<Q – Mitch Kummetz – Seaport Research Partners>: Yeah, thanks for taking my questions. And Diane, best of luck to you in your new role. So I want to start, I got a few questions. I want to start on the Famous side. So the range of guidance in the fourth quarter, obviously, that's below what you delivered in Q3. And I'm just trying to better understand that, how much of that is just that the macro seems worse than what it was in the third quarter versus maybe the Kids business maybe a little worse just given that we're post back to school. And I'm wondering maybe how boots are influencing kind of the trend that you're seeing right now, just maybe given kind of a warm start to the season, although better weather in the last week. So can you maybe unpack some of that in terms of kind of how you're looking at the current trend in that business and the guide for the quarter?

<A>: You know, maybe I'll just start, Mitch, and give you a little perspective. Recently, obviously because of the seasonality of everything and with the weather being as a little more challenging late October into early November, as that's changed, those categories that are more seasonally influenced, not only at Famous, but everywhere has seasonally influence not only at Famous but everywhere has shown really good rebound. So as you would expect that that very much kind of what our performance looks like.

I think the other saying is that there is tremendous amount of shifting going on and – in the macro environment that we wanted to make sure that we really had the right kind of room in the fourth quarter to make sure we sort of deliver the earnings per share that we laid out there and gave Famous plenty of room and the company to make sure that we could do that and go into 2023 in a way that we felt was really teeing up and continuing to support the momentum.

So Jay and Jack, I'm happy to have you add any other comment.

<A>: I'll just add we did see boots off to a strong start in September at Famous, and then as it got warmer it cooled off a little bit, the trend, and then going into November it started to pick up again. So we're feeling good about that piece of it with the fashion part of the boot business being the strongest right now.

<A>: Yeah. And I would just add that I think the results we've seen quarter to date on Famous are pretty consistent with what we've seen in the industry. And just a reminder, which is probably different from a lot of others, is that Q4 is our smallest quarter, so less material on the full year than I think some of our other players in the industry.

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<Q>: And then just to follow up on boots, can you just remind me, if I recall correctly, last year December was particularly warm. I don't know if that was a negative on your boot business last year. Plus, I think there were a lot of late boot deliveries.

<A>: Yeah.

<Q>: So just as you look at that comparison, as you kind of kind of see the quarter playing out, how much of an opportunity is there on boots over the balance of the quarter and even on the brand – on the BP side in terms of maybe replenishment can you kind of walk me through that?

<A>: Yeah. Well on our BP side, I'll start it, that piece, our boots are really the significant portion of our business, up to 30% across the portfolio. And we do see more opportunity. Our inventories really were very out of line last year, and so we really didn't have the boot inventory. We're in good place there now. So we do see some nice deltas coming through as we go into the fourth quarter in that piece of it.

And even with Famous, boots in Q3, we're actually up a little bit for the quarter and we do feel like we have more opportunity there as we go in, particularly on the, on the fashion part of the boot business, which seems to be the best part right now.

<Q>: And in fact, just on the – like on again on Q4, just maybe, I haven't had the chance to sort of back into the margins further for the quarter, but can you just kind of maybe, kind of high level talk about some of the puts and takes that you're thinking about Q4 maybe especially on kind of the merch margin side and kind of how you're anticipating promotions?

<A>: Yeah, well, I think we're expecting an increased level of promotional activity certainly versus last year. And Mitch, I think there's a couple of factors there. One is we know that inventories in the industry are higher. We know that the consumer is – the consumer wallet is a bit more stretched than it was last year. And so, I think those two factors are inclining us to think that this is going to be a more promotional period. We also have – versus last year, our inventories – we had very little inventory last year because of some of the supply chain constraints. So for those reasons we're expecting I think to get to a more normalized level of pricing and promotional activity in the quarter, and that's factored in to our guidance.

<Q>: And I guess, final question. Just on the Famous margins. You mentioned that the gross margin there is up 370 bps from Q3 2019. So just maybe can you remind us some of the structural changes to the business that has allowed you to deliver that level of profitability and how sustainable you feel like those changes are?

<A>: Well, let me start on that Mitch on some of the structural changes that I can really actually speak to it from a total company perspective. And there's a couple of probably most – the biggest significant areas would be really in the margin rate assumptions across the company, both in for Famous and for Brand Portfolio. We really believe that we are going to be able not to maintain things at the high level at Famous in 2021, but somewhere between historical and those 2021 levels, which is you're even seeing us do a little bit better than that today. So that's one element.

The Brand Portfolio, again, the margin improvement that we're seeing now getting much higher high-30s, let's hope 40 at some point in time, but that structural change has happened. So the whole margin profile of the company because of how we've been able to price the edit-to-win and a whole lot of other host of other things have really changed that.

The second thing was we exited brands and we exited stores, and that structural cost came out of our P&Ls as well. Interest expense was a bit different. Share buyback, depreciation and amortization has been a big factor of it as well and then even corporate payroll. So when we look at

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all those pieces and add them up and we take a certain percentage, we don't assume it's all going to be better. It's very, very clear to see that the materiality of that is going to be significant for us going forward with the most important, we look at this management of SG&A and expense on a day to day basis. We took $100 million out a couple of years ago, we continuously look at that to make sure that we're reallocating that spend in the right way. But the real one is going to be those margin rates. And that's going to be critical and that's where, I would say, 80% of our focus is on making sure that that continues to be where it is today or better as we go forward. So, that's, I think that's what I say with respect to the structure for the entire enterprise. Is that helpful for you?

<Q>: It is. Thanks and good luck for holiday.

<A>: Thanks, Mitch.

<A>: Thank you.

Operator: Thank you. Ladies and gentlemen, our final question comes from the line of Dana Telsey with Telsey Advisory Group. Please proceed with your question.

<Q – Dana Telsey – Telsey Advisory Group LLC>: Good morning, everyone. And congratulations, Diane and hello, Jay, Jack, and Logan.

<A>: Thank you, Dana.

<Q – Dana Telsey – Telsey Advisory Group LLC>: Thank you.

<A>: Hello.

<Q – Dana Telsey – Telsey Advisory Group LLC>: So just current trends we've been hearing about end of October into November, can you frame how it's looking for you guys with Famous and the Brand Portfolio? And next up, the path of the Brand Portfolio is very impressive, both in terms of margins, sales increases, and how it combines and interacts with Famous Footwear. With that path of operating margins of the brand portfolio improving, what do you see as the long term opportunity in terms of that margin and the stickiness of the Famous Footwear operating margin now in that double-digit range with the promotional environment, anything in terms of how you're managing pricing and promotion that maintains that stickiness or is the benefits from supply chain reduction can it offset some of the promotional headwinds that may arise? Thank you.

<A>: Well, let me start, Dana on a couple of those things. I think as – the short answer, answer on the is the sustainability of this on the operating margin side is yes. We absolutely believe there's enough stickiness with as the structural changes that we've made the way that we're approaching the business and the product creation capabilities we have and our focus on margin, as I just said is absolutely going to allow us to continue to make progress against that.

And I know Jay and Jack, as we move into 2023, we'll certainly be sharing more with you about that and are really planning to do an Investor Day sometime in the first half of 2023, where we share a little bit more – where they'll share a little bit more about their outlook for the next couple of years. So, I think more to come on that but the short, the short answer is, yes, we absolutely believe that we can.

And then secondly, Jay, a little bit I spoke about it earlier but maybe on the trends that we're seeing and then maybe Jack can close it out on...

<A>: Yeah.

<A>: ...reiterating kind of what are some of our assumptions were.

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<A>: Well, we're certainly seeing – on the, I would say, the non-athletic side of the business, we're seeing multiple categories open up. The – in terms of loafers and flats are very, very good right now and again, anything that feels comfortable, really trending nicely, as consumers continue to select new things to add to the wardrobes.

Our businesses on the brand portfolio side is good, it was also good on Famous and we see that as starting to tick up as the weather gets colder. I did say more of the fashion side of that is really where the dynamics are and obviously, our brand portfolio fits in perfectly there. You picked up on it. It also works very nicely in our – on our vertical integration there with several of our brands like Stride, Dr. Scholl's, even some Franco Sarto, and Naturalizer coming in nicely as we really open up that whole Famous opportunity there as we look to integrate that and it's coming off really nicely.

Back to the margin question, we don't see any return on that. We feel like we've made enough structural changes and also the way that we're running the business, both on the Famous side that has really more of the brands they want at higher retails. And then also we really did change the mix of where we're really focusing on the brand portfolio side. And that gives us reason to believe that, that will continue.

<A>: Dana, how's that? Is that...

<Q>: Yes.

<A>: Does that get to the core of your question?

<Q>: Yes. Works great. Thank you very much.

<A>: All righty. Thanks, Dana.

<A>: Thank you.

Operator: Thank you. Ladies and gentlemen, that concludes our question-and-answer session. I'll turn the floor back to Ms. Sullivan for any final comments.

Diane M. Sullivan, Chairman & Chief Executive Officer, Caleres, Inc.

I just want to say thank you for joining us this morning and wishing everybody a Happy Thanksgiving. We'll see many of you next week and looking forward to that. Thank you.

Operator: Thank you. This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.

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